



# MONTANA LEGISLATIVE BRANCH

## Legislative Fiscal Division

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DATE: March 6, 2006

TO: Legislative Finance Committee

FROM: Lois Steinbeck  
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RE: Federal Deficit Reduction Act of 2006

### PURPOSE

This memo summarizes preliminary information about the federal Deficit Reduction Act of 2006 (act) and highlights some of the major impacts of the President's proposed federal fiscal year 2007 budget. There is a legal challenge to the act, since the U.S. House and Senate passed different bills, and the President signed the Senate version of the bill. Pending the outcome of the legal challenge, Legislative Fiscal Division (LFD) staff with assistance from Department of Public Health and Human Services (DPHHS) staff compiled a summary of some of the impacts of the act. Staff will continue to gather and refine information about the act for the June Legislative Finance Committee (LFC) meeting, but felt it was important for legislators to understand some of the more significant ramifications of the act. Some of the major impacts can be determined only after the federal Centers for Medicare and Medicaid Services (CMS) issues guidance interpreting some provisions of the act.

### MAJOR IMPACTS

Figure 1 summarizes the potential impacts of the act, and in most cases presents the worst-case scenario if the legislature were to appropriate general fund to maintain services at the current level - \$9.3 million this biennium and \$19.9 million in the 2009 biennium. These cost increases do not take into account savings that are expected to accrue due to the change for Medicaid drug reimbursement based on the manufacturer's price. Neither do these estimates include any cost saving measures or any reductions in services that the legislature may deem prudent.

### Targeted Case Management

The most significant cost appears to be due to changes in targeted case management services at about \$6.9 million this biennium and \$11.8 million over the 2009 biennium.

However, as illustrated in Figure 1, LFD staff could not provide complete information for fiscal years 2006 and 2007 in the category of Targeted Case Management because estimates were received only from the Foster Care and Disability Services programs. From the data received, the most significant programmatic changes that cause the cost shift are:

- o Changing the definition of services that qualify for Medicaid reimbursement
- o Disallowance of Medicaid reimbursement for case management services provided by child welfare workers
- o Disallowance of Medicaid reimbursement for case management services that could be provided by third party payors, which could include the State of Montana, which provides general fund supported case management services in the developmental disability system

## **Child Support Enforcement**

The act makes several changes to the Child Support Enforcement Program, which net to an estimated cost of \$3.6 million in the 2009 biennium and are nearly a wash this biennium. The most significant change prohibits states from using federal incentive funds received for meeting or exceeding the federal incentive performance measures as a match for federal child support enforcement funding. Montana has historically deposited the incentive funds into a state special revenue account and used them as match (34 percent state/66 percent federal).

Another change that will provide revenue to the state is a mandatory fee of \$25 annually for child support collection services. The fee must be levied on families that have never been on TANF cash assistance.

Child support paternity testing services were previously eligible for a 90 percent match. The act lowers the federal match to 66 percent, the match rate for other program operating costs.

## **Foster Care Services**

The bill clarifies the limited circumstances under which a state may claim federal reimbursement for administrative expenses under the Foster Care Maintenance Payments Program, and narrows the licensing requirement for relative caregivers. The financial impact is not large, but the potential loss of grandparents or other relatives that would otherwise be willing to foster a child if there was no licensing requirement could impact children.

## **Other Medicaid Services**

In addition to changes in targeted case management, the act reduces reimbursement for school transportation for special needs children to and from Medicaid services at an estimated cost of \$4 million over the 2009 biennium. Schools that rely on Medicaid payment for such services would lose the reimbursement.

One change that is expected to lower Medicaid costs alters prescription drug pricing. Medicaid program reimbursement for drugs will be based on manufacturer's cost, replacing the drug rebate practice.<sup>1</sup> Until states receive federal guidance, it is unknown what impact this change will have.

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<sup>1</sup> Drug rebates are paid by manufacturers to state Medicaid programs based on the quantity of drug purchased and a price calculated according to federal Medicaid criteria. Rebates offset Medicaid program expenditures.

## FEDERAL 2007 BUDGET PROPOSAL

The President's proposed budget for federal fiscal year 2007 includes more reductions in federal funding for social and human services programs. Changes that can be estimated and appear to be in excess of \$1 million, the amount, and impacts are:

- o \$28.6 million reduction in matching funds due to changes in Medicaid provider taxes
  - o Impacts to hospital and nursing home services due to reduction in Medicaid rates
- o \$5.6 million reduction in federal matching funds for Medicaid targeted case management services (match rate falls from about 70 percent to 50 percent)
  - o Impacts to developmental disabilities, senior and long-term care, and adult and child mental health services systems
- o \$5.4 million reduction due to capping payments to government providers
  - o Impact to nursing facilities program
- o \$3.0 million loss from elimination of Community Services Block Grant
  - o Impact statewide for Human Resource Development Councils
- o \$2.0 million in rural health funding
- o \$1.65 million in reduced funding for Children's Health Insurance Program (CHIP)
- o \$1.6 million reduction in Social Services Block Grant
  - o Impact to developmental disabilities and adult protective services

Figure 1

Figure 1

Possible Major Impacts of the Deficit Reduction Act on the General Fund						
Program/Change	Start Date	Percent of		Cost/Savings to the General Fund		
		State Match	Fed Match	Expenses Positive; Revenue (Negative) FY 06	FY 07	2009 Bien
<b>Child Support Enforcement</b>						
Incentive Match Elimination	10/1/07	34.0%	66.0%	\$0	\$0	\$3,736,765
Paternity Testing Match Reduction	10/1/06	34.0%	66.0%	0	14,471	38,588
\$25 Mandatory Fee for Families Never on TANF	10/1/06	34.0%	66.0%	27,744	(33,819)	(127,178)
<b>Subtotal Child Support Enforcement</b>				<u>\$27,744</u>	<u>(\$19,348)</u>	<u>\$3,648,175</u>
<b>Targeted Case Management</b>						
New Definition of Services and Third Party Payor						
<i>Foster Care</i>	1/1/06	30.9%	69.1%	\$1,000,000	\$2,000,000	\$4,000,000
<i>Disability Services</i>	1/1/06	30.9%	69.1%	1,700,000	2,200,000	4,400,000
<i>Aged/Disabled and Mental Health Services</i>	1/1/06	30.9%	69.1%	unknown	unknown	3,400,000
<b>Subtotal Targeted Case Management</b>				<u>\$2,700,000</u>	<u>\$4,200,000</u>	<u>\$11,800,000</u>
<b>Foster Care</b>						
<b>CFSD</b>						
Eliminated IV-E Match for Administration in Certain Situations	10/1/05	0.0%	0.0%	\$129,000	\$172,000	\$344,000
Changes the Home of Removal Requirement Retroactive to 10/1/2005	10/1/05	0.0%	0.0%	75,000	100,000	200,000
<b>Subtotal Foster Care</b>				<u>\$204,000</u>	<u>\$272,000</u>	<u>\$544,000</u>
<b>Other Medicaid Funded Services</b>						
School Based Transportation Services	10/1/06			\$500,000	\$1,500,000	\$4,000,000
Asset Transfer - Change the Lookback to 5 Years		30.9%	69.1%	unknown	unknown	unknown
Begin Penalty Period at the Date of Eligibility						
Drug Reimbursement Formula Based on the Manufacturer's Price of Drugs		30.9%	69.1%	unknown	unknown	unknown
<b>Total Deficit Reduction Act</b>				<u>\$3,431,744</u>	<u>\$5,952,652</u>	<u>\$19,992,175</u>

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